

Manthei East Pradeshiya Sabha - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Manthei East Pradeshiya Sabha including the financial statements for the year ended 31 December 2024 comprising the Balance Sheet as at 31 December 2024, Income and Expenditure Account, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, under my direction in pursuance of provisions in Article 154 (1) of the constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and Sub-section 10 (1) of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Manthei East Pradeshiya Sabha as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Qualified Opinion

I expressed qualified opinion on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Practices, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Pradeshiya Sabha's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Pradeshiya Sabha is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements.

1.4 Scope of Audit (Responsibility of the Auditor for the audit of Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercised professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of its internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Pradeshiya Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Pradeshiya Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Pradeshiya Sabha;
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the Pradeshiya Sabha had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Report on Other Legal Requirements

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The value of 33 lands owned and used by the Council had not been assessed and accounted for by the end of the year under review.	That it will be assessed in the future.	All assets owned by the council should be included and accounts should be prepared accurately.
(b) The cost of a construction project of Rs.3,244,620, which was completed during the year under review, had not been capitalized.	That the steps will be taken to ensure that such errors do not occur in the future.	Financial statements should be prepared accurately.
(c) The estimated cost of Rs.1,499,323 related to 02 unfinished constructions had been accounted for as creditors.	That the work will be implemented this year.	Accounts should be prepared accurately.
(d) 02 solar panel systems worth Rs.5,064,684 had been shown as office equipment in the financial statements.	That the value will be settled after the work is completed and the payment bills are received.	Financial statements should be prepared under correct classifications.

1.7 Non-compliance

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules and Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Section 126, paragraph IX (b) of	Waste disposal fees of Rs. 8,880,236 had been	Steps have been taken to publish in	Steps should be taken to charge

	the Pradeshiya Sabha Act, No. 15 of 1987	collected without preparing by-laws on the imposition of fees and publishing them in the Gazette.	the Gazette the fees to be charged.	the fees in accordance with the provisions of the Act.
(b)	Public Finance Circular No. 01/2014 dated 17 February 2014 and Sub-section 16(2) of the National Audit Act No. 19 of 2018	The Council had not submitted the annual performance report along with the financial statements for audit.	The annual performance report will be submitted along with the financial statements in the near future.	Steps should be taken to submit the annual performance report along with the financial statements for audit in accordance with the provisions of the circulars and the Act.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of income over recurrent expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs.5,227,965 compared to the excess of income over recurrent expenditure amounted to Rs.10,319,206 in the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

According to the information submitted, Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Source of Revenue	and	2024	Revenue billed	Revenue Collected	Arrears as at December 31	2023	Revenue billed	Revenue Collected	Arrears as at 31 December
		Estimated Revenue				Estimated Revenue			
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes		3,000	205,923	205,923	-	-	4,000	4,000	-
Rent		580,000	1,023,637	788,900	234,737	540,000	624,870	620,850	220,582
Licence Fee		275,000	340,250	340,250	-	165,000	253,800	253,800	-
Other Revenue		9,846,000	15,030,599	14,499,122	531,477	8,479,000	13,868,748	13,017,926	850,822
Total		10,704,000	16,600,409	15,834,195	766,214	9,184,000	14,751,418	13,896,576	1,071,404
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2.2.2 Performance in Collecting Revenue

Audit Observation	Comments of the Council	Recommendation
The total arrears of rent and lease rent existed for the last 1 to 11 years amounted to Rs.613,557 , while the court fines and stamp duties due as at 31 December 2024 were Rs. 4,331,317 and Rs. 523,500 respectively.	Steps are being taken to recover the outstanding amounts.	Appropriate steps should be taken to recover the outstanding amounts without delay.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
The Council had deposited the balance of Rs. 32,200,000 in fixed deposits in the year under review in the bank for the purpose of earning bank interest income, without using it for development activities related to public utility services as mentioned in Section 108 of Chapter IV of the Pradeshiya Sabha Act No. 15 of 1987.	Fixed deposit funds will be utilized for future development activities with the relevant approvals.	In accordance with the Pradeshiya Sabha Act, steps should be taken to engage in development activities related to public utility services.

3.2 Assets Management

	Audit Observation	Comments of the Council	Recommendation
(a)	Contrary to paragraph 1.1 of the Finance Commission Circular No. 2016/01 dated 30 December 2015, renovation works of 05 buildings and community resource centres were also carried out at a cost of Rs. 53,716,357 on properties not belonging to the Council.	Steps are being taken to obtain land documents.	Steps should be taken to obtain documents regarding ownership of lands.

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| (b) | Steps had not been taken to transfer the ownership of 03 vehicles used by the Council to the name of the Council for a period of 06 to 14 years. | Action is being taken to transfer the ownership of the vehicles. | The ownership of the assets should be cleared. |
| (c) | Although the council had purchased a multi-chopper machine worth Rs. 1,147,800 for the production of compost fertilizer in 2023, steps had not been taken to use the machine in the compost fertilizer production process as of the reporting date. | The composting machine has not been used due to the very low amount of waste in our council. | Steps should be taken to fully utilize the assets, and the need should be identified and equipment purchased. |

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
When comparing the estimated income and expenditure with the actual income and expenditure as per the budget prepared for the year under review, the budget had not been used as an effective management control instrument due to variations ranging from 24 percent to 68 percent in 06 revenue objects and from 29 percent to 58 percent in 05 expenditure objects, and a variation of 279 percent in a capital expenditure object, indicating that the budget had not been used as an effective management control tool.	In the future, the budget will be implemented with management control.	The budget should be prepared carefully, identifying the needs.